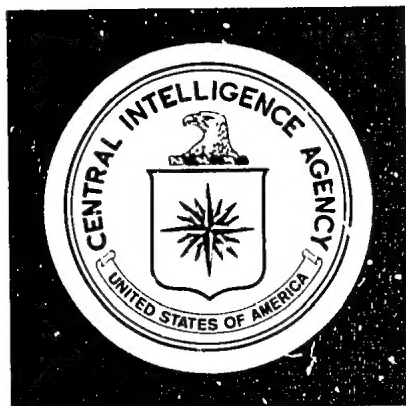


Declassified in Part - 25X1  
Sanitized Copy Approved for  
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CIA-RDP85T00875R001000080

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# Weekly Review

**Top Secret**

January 24, 1975

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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## *Moscow Reaffirms Detente*

Moscow continues to offer public and private assurances that collapse of the US-Soviet trade agreement does not signal a turn from detente. At the same time, Soviet criticism of the US, particularly in the media, is becoming increasingly truculent.

In a conversation with a US embassy official on January 20, L. M. Maksudov, chief of the Foreign Ministry's information division, spoke of the Soviets' great disappointment with the language of the US trade bill, but in a tone more regretful than hostile. He characterized the language of the bill—especially in referring to “non-market economies”—as contrary to normal international conduct. Maksudov, whose division transmits policy guidance to Soviet embassies, may have been drawing directly from the official line in contrasting the setback on trade with the rapport established between President Ford and General Secretary Brezhnev at Vladivostok. Some echoes of this message may have appeared in Rome, where the Soviet ambassador has told Ambassador Volpe that Moscow's commitment to detente would remain unchanged.

The Soviets may have enlisted their allies in the effort to reassure the US on detente. On January 18, a Polish Central Committee member sought out a US official to rebut as “nonsense” Western speculation about a return to the Cold War. He said that neither the Soviets nor the Poles want to turn back from detente. In addition, Soviet UN delegates have recently approached their British and West German counterparts to assess the reaction to Moscow's renunciation of the trade agreement. The Soviets reportedly were concerned that the West Europeans would erroneously interpret their action as marking a change in the Soviet attitude toward detente in Europe.

The Soviet central press continues to affirm Moscow's commitment to detente and to give heavy coverage to recent public statements by President Ford and Secretary Kissinger that detente with the Soviet Union will be continued and strengthened. The press has also resumed frequent and positive coverage of the Vladivostok arms-control understandings in an evident effort to offset the “step backwards” in trade relations.

Moscow's evident interest in preserving and extending the gains of its policy of improved relations with the US has not, however, kept it from reacting sharply to a number of irritants. Despite prompt US apologies for a shooting incident at the Ukrainian UN mission last weekend, for example, the official Soviet protest delivered on January 22 was extremely sharp. The note, which was broadcast in its entirety to the domestic Soviet audience, said that unfulfilled US assurances and promises of preventive action constitute “virtual connivance with criminal elements” by US authorities. Such acts, the note warned, “cannot fail to do damage to relations.”

The level of critical coverage of the US remains at the unusually high levels of the past month. The Soviets are concentrating their propaganda on US domestic economic problems, Washington's policy in the Middle East, alleged abuses by the US intelligence community, and continued American support of South Vietnam.

Meanwhile, Brezhnev's absence from view—it is now a month since his last public appearance—has fed the growing number of rumors about his physical and political health. Soviet sources have offered a variety of explanations for his absence. There have also been differences over the impact of his illness on his work schedule. Some reports say Brezhnev has been temporarily relieved of his official duties, while others suggest that he will soon return to work.

In the face of these rumors and speculations, however, there is no evidence of concern on the part of other Soviet leaders. Prime Minister Kosygin, for example, is still on vacation in the Caucasus. Moscow party boss Grishin made a trip to Warsaw to take part in celebrations marking its liberation during World War II, and Defense Minister Grechko visited Soviet forces in East Germany and Poland. Trade union chief Shelepin, Secretary for Agriculture Kulakov, and Minister of Agriculture Polyansky took part in previously scheduled routine conferences in the capital, and press reporting indicates that republic-based members of the Politburo are also following their usual routines.

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## EASTERN EUROPE REACTS TO US TRADE BILL

East Europeans have generally followed the Soviet lead in blaming "anti-detente forces" in Washington for restrictions in the 1974 trade bill that caused Moscow to renounce the 1972 US-USSR trade agreement. The Kremlin's more loyal allies call it a temporary setback, however, and they point to the strategic arms limitation talks, the conference on European security, and implementation of bilateral agreements as evidence that detente is a continuing process. Despite this upbeat note, some differences in national approaches have emerged.

The first authoritative reaction came from Prague, where Foreign Minister Chnoupek met with the US ambassador last week to inform him that restrictions in the trade bill specifically aimed at Prague—and affecting Czechoslovak gold—had produced "a very bad reaction." Chnoupek's remarks could signal that in the short term most Warsaw Pact capitals will look at this aspect of the US relationship for ways of showing their dissatisfaction.

Reaction by Albania, Poland, Yugoslavia, and Romania reflects the particular national circumstances of each.

Albania factually reported Secretary Kissinger's announcement of the Soviet decision, and then predictably condemned the "revisionist rulers" in the Kremlin for their willingness "to sell thousands and tens of thousands of their citizens for US credits and goods." By contrast, Polish media have barely noted the Soviet rejection of the trade agreement. Warsaw's coverage—the most favorable to the US in Eastern Europe—has stressed the positive, including Secretary Kissinger's statement that the administration will urge Congress to reconsider the trade bill.

Bucharest's failure to give even factual coverage suggests it is having difficulty finding a safe middle ground. The Romanians are now deeply involved in negotiating new trade agreements with both the US and the USSR.

The Yugoslavs were slow to comment, perhaps because Moscow's action immediately preceded announcements in Belgrade and Washington that President Ford has accepted an invitation to visit Yugoslavia. Influential newspapers in Belgrade have recently stated that any other decision by Moscow would have meant capitulation. Yugoslav journalists have, however, carefully placed the blame on "those quarters" in Washington that have blocked moves by the US administration to expand economic cooperation with Moscow and the communist countries.

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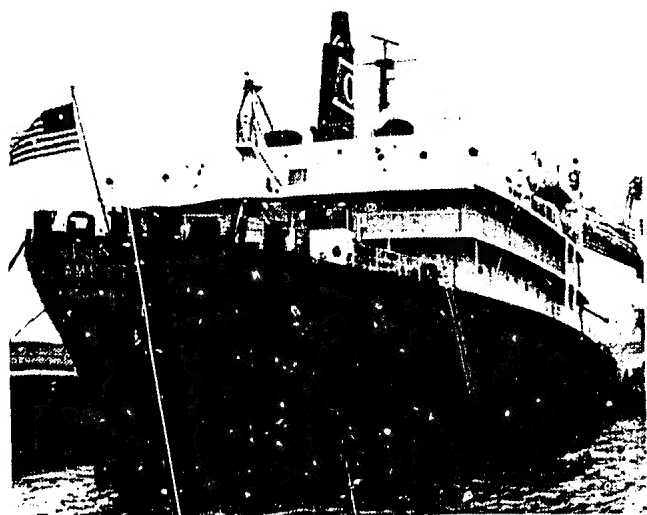
## US-USSR: LITTLE CHANGE IN TRADE

Moscow's abrogation of the 1972 US-Soviet trade agreement will have little immediate impact on trade and technological transfer. Over the long term, US-Soviet economic relations will depend on overall progress in detente and on the extent to which recent US legislative restrictions are modified.

Under the 1972 agreement, Moscow expected to get Most Favored Nation treatment and official US encouragement for the expansion of trade. The Trade Act of 1974, and the amendments to the Export-Import Bank Act, offered only conditional Most Favored Nation status, limited Eximbank credits to \$300 million over four years, and seemed to close the door on US participation in the large Siberian and Far Eastern energy projects. Most seriously, the legislation made Most Favored Nation status and US government credits subject to conditions that the USSR would not publicly accept.

Soviet rejection of the agreement should not substantially affect the volume of US-Soviet trade this year. US exports are expected to be above the 1974 level of \$600 to \$700 million because of deliveries of capital goods ordered by the USSR in 1972 and 1973 when Eximbank credits were available.

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American ship unloading in the USSR

The new restrictions on Eximbank credits are likely to result in a lower volume of orders for US equipment. Major US banks have indicated that they would continue to lend to the USSR, but new loans will be more costly to Moscow without the lower interest rates and longer credit periods previously available with Eximbank participation. Furthermore, US law limits the amount of credit that banks can advance to any single borrower, so that consortium loans might be necessary. US private credit facilities will probably be discussed when the chairman of the Soviet Foreign Trade Bank meets with US bankers later this month or early next.

Eurodollar funds—now reportedly underutilized—could also be used to finance imports from the US. In any case, the higher cost of financing US purchases will put US firms at a competitive disadvantage with a number of West European and Japanese firms, whose governments continue to grant low-interest credits in an attempt to expand export markets.

Prospects for major cooperative projects will be variously affected as a result of the restric-

tions. The outlook for US participation in the Yakutsk liquefied natural gas project is further dimmed because the Japanese government has made its participation in the tripartite deal contingent on capital participation by the US, preferably involving Eximbank. US participation in the North Star liquefied natural gas project already was doubtful because of growing Soviet demands; lack of Eximbank support probably will force US firms to back out or to propose internationalizing the project. Negotiations for the aluminum complex project, involving \$1.4 billion in Western equipment, should not be seriously affected, since Kaiser had made tentative plans for financing the project without Eximbank. The Sakhalin Island oil exploration project, largely a Soviet-Japanese deal, will not be affected at this time because US participation does not include substantial capital involvement in the initial stages.

The two gas projects—Yakutsk and North Star—will be hurt, but only the Yakutsk deal should prove to be a real disappointment to the Soviets. Most of the requirements for development projects can be met from non-US sources. Oil drilling and pipeline equipment and technology are notable exceptions.

Before 1972 and the availability of Eximbank credits, Soviet purchases in the US were restricted to high-priority equipment not available elsewhere. US firms that can channel production to overseas subsidiaries to take advantage of subsidized credits available abroad would presumably be least affected.

Moscow would prefer not to let economic relations with the US deteriorate and is probably looking for ways to remove the impediments to further growth of US-Soviet trade. In the meantime, the Soviets will link their cutbacks in orders to the US restrictions, and will hope thereby to pressure American businessmen and political leaders to seek modification of the 1974 trade bill. Tass has already begun to quote US businessmen in Moscow who are said to sympathize with the Soviet attitude toward the restrictions.

## SECURITY CONFERENCES RESUME

The Conference on Security and Cooperation in Europe reconvened in Geneva on January 20. The force reduction negotiations will resume next week in Vienna. Some observers have speculated that the delegates in Geneva will be able to complete their work by this spring. Whether they can accomplish this, however, will depend on whether East and West offer concessions that they have been reluctant to make so far. In Vienna, the two sides are deadlocked; the prospects that they will be able to resolve their differences on basic issues during this negotiating round appear dim.

In Geneva, the delegates from 35 states must:

- finish drafting texts spelling out the principles that govern international relations;
- adopt some form of "confidence-building measures" designed to make certain types of military activities appear less threatening;
- finish their discussion of the relatively uncontroversial subject of economic cooperation;
- resolve the most sensitive issue: what type of practical measures should be adopted to facilitate the "freer movement of people and ideas" between East and West.

In addition, the conferees will have to determine what type of follow-up arrangements should be established once the conference itself ends. Several recent commentaries in the Soviet press suggest that Moscow will press to conclude the negotiations early so the summit-level meeting that the Soviets want to cap the conference can take place this summer.

Many of the West European and neutral participants speculated earlier that the negotiating phase could end this spring. Recent discussions among the EC Nine suggest, however, that some of the major West European participants, particularly the West Germans, will be reluctant to force the pace of the talks or to drop their demands for

practical measures to improve confidence and to facilitate East-West contacts. At the same time, some Europeans have shown some concern that Moscow's recent action on the US-Soviet trade accord might presage a lessened Soviet interest in detente.

The security conference, however, is both a product and a symbol of detente, and both East and West will probably attempt to conclude the negotiations during this round of talks. Moscow probably believes that the gains it has already obtained—such as recognition of the existing borders in Europe—and the prospect of obtaining language that will provide it with a rationale for reneging on any concessions regarding the freer movement of people and ideas, will enable the Soviets to make minor concessions to move the negotiations to a conclusion.

In Vienna, after more than a year of negotiating, the two sides remain far apart on resolving the basic issues of which states should reduce their forces, when, and what type of forces should be reduced. Unless one side or the other changes its negotiating position, little progress is likely to be made during the coming round of talks.

For the Western allies, a matter of immediate concern will be to reply definitively to a Soviet proposal made last November that the participants freeze the level of men in their armed forces for the duration of the negotiations. All the Western allies agree that the Soviet proposal is unacceptable, but several of them wish to make a counterproposal that could have the effect of changing the topic of the negotiations from force reductions to a freeze. The Allies will continue their discussion of how to reply on January 23.

The Soviets, who appear to be under no time pressure in the force reduction talks, will probably attempt to seize the initiative again during this round. They may further modify the "symbolic reduction proposal" they offered last October by suggesting that only ground forces be reduced during an initial stage of reductions.

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## PORTUGAL: CONTROVERSIAL LABOR LAW

The Portuguese cabinet this week narrowly approved Communist-backed labor legislation that provides for a single labor confederation. Prime Minister Goncalves reportedly cast the tie-breaking vote in favor of the statute. The bill had been under consideration for more than six months and appears to have caused divisions within the ruling Armed Forces Movement as well as in the government's three-party coalition.

The Communists view the law as a way of improving their present domination of labor organizations. Control of labor would ensure continued Communist influence in Portuguese politics, even if the party should fail to do well in the election. The other two parties in the coalition, the Socialists and the center-left Popular Democrats, are anxious to prevent the spread of Communist influence and have threatened to leave the coalition over the labor law issue.

Passage of the law was in doubt until the Armed Forces Movement publicly endorsed it. Reports circulating in Lisbon indicate that the Movement was not as united on this issue as its press releases suggested and that approval was pushed through by a minority of more radical officers. According to US embassy sources, the Movement's 200-member assembly failed to reach agreement after an unruly session. At this point, leftist-oriented officers suggested that the decision be left to the Superior Council, where they believed the chances for approval would be greater. The vote in the Superior Council was reported to have been 11 to 9 in favor of the bill.

The moderates within the Movement may have become sensitive to the implied alliance between themselves and the Communists on this issue. Possibly to dispel this notion, the Superior Council issued a communique last weekend restating its determination to hold elections on schedule. The Communists have come out in favor of postponing elections and have been searching for ways of blocking them.

Press coverage of the dispute has cast considerable doubt on Communist claims that the law had solid labor backing. Several unions have expressed their displeasure with the legislation and the Catholic Church, which has kept silent on political matters since April, issued a communique favoring trade union liberty.

Socialist leaders will meet this weekend to decide whether the party should stay in the government. Party leader and Foreign Minister Mario Soares is opposed to withdrawal although he is under considerable pressure within the party to do so. Soares says that changes have been made in the final draft of the labor law that will enable the Socialists to operate freely, despite Communist control of the superstructure. There are also reports of dissension within the Popular Democratic Party over its future plans, but the party will attempt at all costs to avoid a public split before the constituent assembly elections in April.



Goncalves

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strong convictions. This reputation is probably not wholly deserved, for the fractious nature of the Labor Party forces its chairman to provide leadership through compromise instead of example. A willingness to listen to all sides, skill in parliamentary maneuvering, and deftness and wit in persuasion mark Wilson as probably the only man who can keep the party together in the face of the staggering problems facing Britain today.

After a slow start, Callaghan has been a fairly effective foreign secretary. At first, he devoted most of his energies to the EC renegotiations, but in recent months he has been involved in all sorts of foreign policy questions, including Cyprus and the intractable Rhodesia problem. Because of his keen interest in and close involvement with Cyprus last summer, Callaghan most certainly will want to discuss this issue, including the British role, during his talks here.

Lever is a cabinet official but serves primarily as economic adviser to Wilson. Probably the most moderate of the members of the cabinet, he seems to function best in situations where orthodoxy and respectability are in order. He is considered knowledgeable in industry and finance and has had considerable experience in the Treasury, the City of London, and other financial centers of Europe. One of his current roles is to meet with international oil company representatives engaged in the exploration of North Sea oil; they are highly skeptical and fearful about some of the Labor government's proposals for taxation and participation in the North Sea projects.

#### UK: WILSON COMES TO WASHINGTON

Prime Minister Wilson and two cabinet ministers, Foreign Secretary Callaghan and Chancellor of the Duchy of Lancaster Lever, will be in Washington late next week for meetings with top-level US officials. The discussions will probably focus on the state of the world economy, oil-related problems, and on such matters as the Middle East and Cyprus. The leaders will probably also talk about Wilson's trip to Moscow, scheduled for mid-February.

A practitioner of politics rather than a doctrinaire socialist, Harold Wilson is regarded even by colleagues as a compromiser, not a man of

The Labor government has made good relations with the US a keystone of its foreign policy, and this is likely to continue as long as US positions are not harmful to British interests. The most likely areas of conflict are oil-related issues and the Middle East. Britain's current-account deficit last year of nearly \$8 billion can largely be explained by rising oil prices. Until North Sea oil makes Britain self-sufficient, the UK will want to maintain good relations with the Arabs to assure a continuing supply of oil as well as markets for British goods.

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## CYPRUS: VIOLENT DEMONSTRATIONS

The British government's decision last week to permit Turkish Cypriot refugees on its air base at Akrotiri to be airlifted to Turkey sparked demonstrations by angry Greek Cypriots that caused extensive damage to British and US diplomatic offices in Nicosia. The demonstrations have subsided, but Greek Cypriot resentment remains high because the refugees are to be resettled on former Greek Cypriot properties in the Turkish-controlled northern sector of the island.

The demonstrations took a violent turn on January 17 as British officials were making preparations for the airlift of the 8-9,000 refugees. A group of demonstrators clashed with British security personnel at the edge of the base, resulting in injuries on both sides and the death of a Greek Cypriot youth. The anti-British demonstrations, stirred by extreme leftist members of Vassos Lyssarides' party, soon took on anti-American overtones as well. Part of the US embassy as well as sections of the British consulate and the British Council building were ransacked and burned on January 18.

The government, which had vehemently protested the evacuation of the refugees, did little to stop the demonstrators. Greek Cypriot police and National Guardsmen stood by and watched as the US embassy was assaulted. A strong demarche from the US government following the attack apparently prompted Greek Cypriot authorities to provide better protection. An attack against the USIS library on January 20 was beaten back by strong security measures, and the crowds were calmed by the arrival on the scene of President Makarios. The library suffered only slight damage and was not entered. US embassy officials received assurances that the government was determined to prevent another assault against US installations and that, if need be, Makarios would again appear to disperse demonstrators.

In the meantime, the evacuation of the refugees, which is taking place on Turkish aircraft and will be completed next week, continues unimpeded. Prior to its decision to allow the evacuation, the British government had taken the position that their fate was a political question to be



Demonstrations against UK

settled in the course of the intercommunal talks. Under severe pressure from the Turkish government, however, Whitehall reversed its position and permitted the refugees to leave. Ankara had insisted that the question was purely a humanitarian one between itself and London since the refugees were on sovereign British territory.

Greek and Greek Cypriot officials charged the British with betrayal and with undercutting their bargaining position in the intercommunal talks, which last week turned for the first time to substantive political questions. They dismissed as specious the British contention that the Turkish side will now be under pressure to reciprocate on the humanitarian concerns of Greek Cypriots.

While Turkish Cypriot negotiator Denktash hinted prior to the session on January 17 that some gesture might be forthcoming from the Turkish side, he apparently did not make any concrete proposals during the session or at his subsequent meeting with Greek Cypriot negotiator Clerides on January 20. Instead, the two men focused on the reopening of Nicosia airport. Their positions on that subject have been described as far apart.

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## MIDDLE EAST: TESTING THE WATER

### In Egypt...

As expectations rise in Cairo over prospects for a second-stage Israeli withdrawal in the Sinai Peninsula, Egypt is coming in for renewed criticism from other Arab capitals for its willingness to satisfy its own negotiating demands without waiting for similar progress on the other Arab fronts. President Saadat has taken to the air with a series of interviews designed both to fend off this Arab criticism and to remind the Israelis that a Sinai withdrawal will not bring an end to Arab demands for the return of territory.

The Cairo press has reflected a high degree of optimism that Israeli Foreign Minister Allon's discussions in Washington last week would result in a withdrawal proposal acceptable to Egypt. The simultaneous visit to Washington by US Ambassador Eilts was taken as an indication that serious negotiations were in prospect. Despite Egyptian government attempts to tone the media down lest public expectations be raised too high, the press has continued its optimistic tack. Ambassador Eilts' midweek return to Cairo was eagerly anticipated, and newspapers are predicting a swing through the area by Secretary Kissinger in early February.

Egypt's undisguised hope for negotiating progress has brought heavy criticism from other Arabs, led by the Palestinians, who accuse the Egyptians of again moving ahead of the other belligerents in negotiations. Palestinian- and Iraqi-backed papers in Beirut have picked up a month-old Tel Aviv news report indicating that Israel had asked for an Egyptian commitment to a 12-year suspension of belligerency in return for a pullback in the Sinai. Commentators writing for these papers are attacking Egypt for allegedly acquiescing in this demand.

The criticism has brought a counterattack from the Cairo press, as well as the series of interviews by President Sadat intended to deflect

the anti-Egyptian propaganda and reaffirm Egypt's continued solidarity with the Arab cause. Early last week, during a discussion with a group of French legislators, Sadat linked the extension of the UN Emergency Force mandate in the Sinai with Israeli withdrawals on all three fronts. He stopped short, however, of specifically conditioning extension of the mandate, which expires on April 24, on an Israeli pullback on the Golan and the West Bank fronts.

Later in the week, Sadat told a Beirut newspaper interviewer that he would not "accept anything short of Israeli movement on the three fronts within three months"—again an apparent reference to the expiration of the UN mandate in the Sinai. Although the remark has been widely mistranslated as a demand for "withdrawal" rather than merely "movement," Sadat probably intended to be deliberately ambiguous about whether he was demanding an actual Israeli pullback on the other fronts by April or was only speaking of diplomatic action.

In any event, Sadat's statements are serving to reassure the other Arabs—and to warn the Israelis—that a Sinai withdrawal would not constitute a final Egyptian-Israeli settlement. Sadat is also reminding both parties that he will turn his efforts to gaining progress on other fronts when and if a Sinai agreement is concluded.

### ...And in Israel

At the conclusion of his discussions with President Ford and Secretary Kissinger, Foreign Minister Allon was optimistic that progress was being made toward a resumption of talks with Egypt. Allon's optimism, however, was not entirely shared by the Israeli press, which expressed concern about Cairo's apparent silence on what it is prepared to offer in return for another Israeli withdrawal in the Sinai. Nor was it shared by conservative Israeli politicians, who grumbled that the foreign minister may be offering the Egyptians too much for too little.

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Prime Minister Rabin apparently had to defend Allon at a cabinet session on January 19, the day before the foreign minister returned to Tel Aviv. According to an account by a newsman with good access to conservative political circles, Defense Minister Peres and other like-minded ministers objected to the positions taken by Allon during his visits to Washington in December and January. They argued that he had gone beyond the framework established collectively by the cabinet, which was intended to limit his mission to expressing Tel Aviv's willingness to undertake a partial withdrawal in the Sinai only in return for substantial political concessions from Cairo. Peres said the government had never, for instance, reached a decision on an Israeli withdrawal of 30 to 50 kilometers in the Sinai, or on the participation of US units in a UN supervisory force.

If the press account is accurate, such criticism of Allon would reflect the strong opposition Rabin is sure to encounter from the powerful conservative bloc in his government toward any Israeli-Egyptian agreement in the Sinai that does not include explicit political concessions by Cairo.

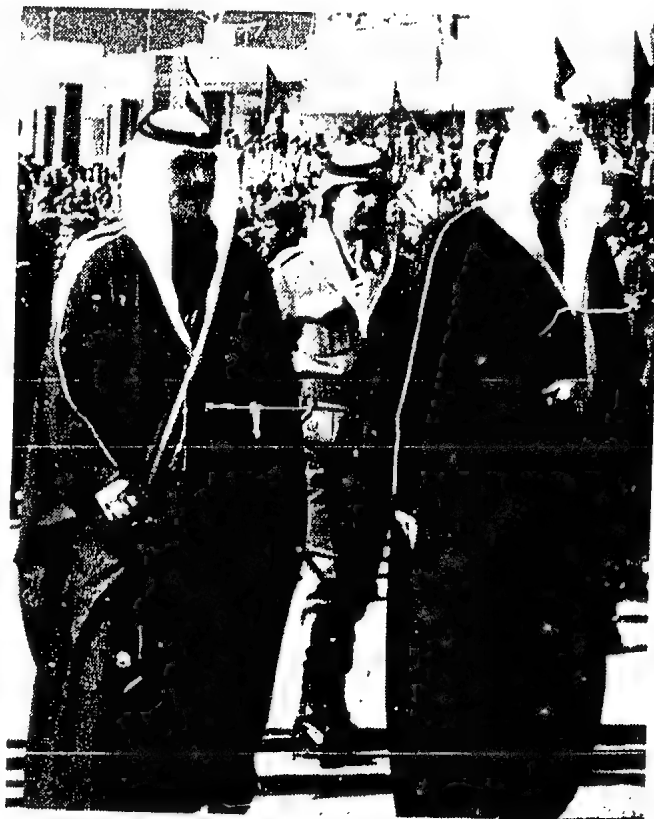
#### ARAB STATES: FAYSAL ON THE ROAD

King Faysal's trip to Syria, Jordan, and Egypt last week resulted in new outlays of cash by the Saudi ruler, but apparently no significant new political developments. The final communiqués were fairly predictable in content and tone.

Faysal's visit to Damascus, symbolic of the improved relations between the conservative Saudis and the Syrians, was a qualified success for both parties. President Asad took steps to ensure Faysal a rousing welcome and to play down the Damascus regime's Baathist origins; the Saudi monarch's good opinion of Asad was reinforced by the trip. The final communique announced the Saudis' intention to provide Syria with \$150 million for "urgent necessities" and \$200 million for

economic development projects.

The Saudis refused, however, to back Damascus' position on Middle East negotiations, dashing any hopes Asad may have had of lining up Faysal to help stop Cairo from pursuing separate negotiations with the Israelis regarding another pullback in the Sinai. Asad would clearly prefer that negotiations on future Israeli withdrawals in the Sinai and Golan Heights occur simultaneously rather than sequentially. An adviser to the King told a US diplomat that the Saudi government regards Syria's position as "unrealistic."



Husayn and Faysal

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Like the Syrians, the Jordanians made an effort to ingratiate themselves with Faysal; large crowds were on the streets of Amman, and Husayn uncharacteristically wore either military uniforms or traditional garb. Faysal's visit resulted in a Saudi grant to Jordan—in addition to funds provided in the Khartoum and Rabat agreements—of \$57 million. Most of this—\$47 million—is intended to cover the Jordanian budget deficit and to pay for development and construction projects in the Jordan Valley and along the Saudi-Jordanian border. The other \$10 million was designated for military officers' housing. The Shah of Iran, on his recent visit, extended a credit for the same amount of money for the same purpose, suggesting that King Faysal was bent on not being outspent by his main rival for influence in the Persian Gulf area.

The Amman communique reiterated conventional Arab criticism of Israeli settlement activities in occupied territories, and specifically condemned Tel Aviv's apparent determination to proceed with construction projects in Jerusalem. The communique also contained—probably at Saudi insistence—a reaffirmation by the two sides of support for the Palestine Liberation Organization and the "legitimate rights of Palestinians."

On the surface at least, Faysal's visit to Egypt would seem to have been a sharp disappointment to the Egyptians. In contrast to the aid given Damascus and Amman, Cairo was the recipient of only \$100 million—described as intended to ensure Egypt's "supplies of essential goods." Even the announcement of this grant was not included in the "press statement" released after Faysal's departure from Aswan, but was left to Egyptian Prime Minister Hijazi.

The Saudis have already given substantial amounts of direct cash aid and project assistance to Cairo. The Egyptian stop was, in any case, only a last-minute addition to Faysal's itinerary, and aid was probably not intended to be high on the agenda. Nevertheless, the Egyptians will un-

doubtedly be chagrined that they came out behind Syria and only slightly ahead of Jordan in Faysal's dole.

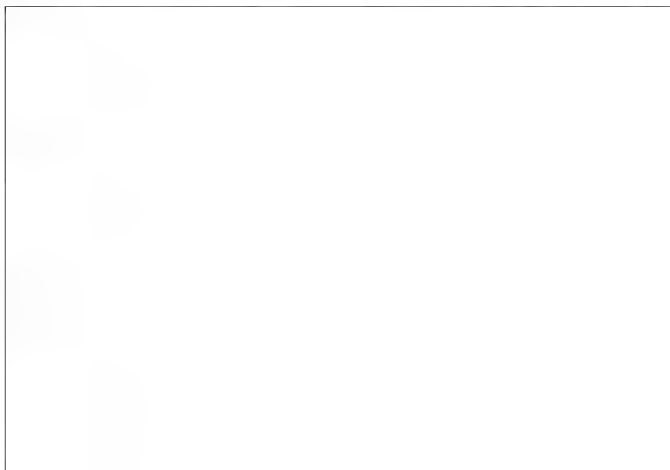
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## IRAN-IRAQ: TALKS FAIL AGAIN

The third attempt within six months to resolve major differences between Tehran and Baghdad failed last week when talks in Istanbul between the Iranian and Iraqi foreign ministers broke up with neither side apparently offering any concessions. Both foreign ministers publicly acknowledged the lack of progress, but held open the possibility of future meetings.



Baghdad believes its armed forces could soon put an end to the Kurdish rebellion if Iran would withdraw its support of the rebels. To this end, the Iraqis have been pressing Egypt's President Sadat and Jordan's King Husayn to help secure the withdrawal of Iranian forces from Iraq. In exchange for Arab diplomatic help, Baghdad has held out the possibility of moderating its foreign policy and reducing Soviet influence in Iraq.

Earlier this month, the Iraqi foreign minister also tried to drum up support in Saudi Arabia and the Persian Gulf states, apparently without success. Undeterred by these failures, the Iraqis are planning a conference for early next month to discuss "Iranian aggression."

One objective of the Shah's recent trip to Egypt and Jordan was to undercut these Iraqi diplomatic efforts and to increase Baghdad's political isolation.



## NORTH YEMEN: PRIME MINISTER OUSTED

The head of the ruling command council, Colonel Ibrahim al-Hamdi, last week abruptly dismissed Prime Minister Muhsin al-Ayni. On January 23, Hamdi asked Abd al-Aziz Abd al-Ghani, a young economist with no political following, to form a new cabinet.

Hamdi had been under pressure for several months from powerful conservative Yemeni tribal sheikhs—and probably from some Saudi Arabian officials as well—to dismiss al-Ayni, who, his enemies claim, has connections with the leftist Baath Party of Iraq. The ostensible reason for the dismissal of al-Ayni was his failure to institute domestic reforms promised by the military when they took power in June 1974.

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The removal of al-Ayni followed the return to Sana earlier this month—aboard a Saudi plane—of Hasan al-Amri, a conservative former prime minister and military officer. Al-Amri had been in exile in Cairo since he was removed as premier and banished from North Yemen in August 1971. There is widespread speculation in Sana that he will eventually be named to North Yemen's three-member executive body, the Republican Council, which is expected to be re-established in the next few months.

Hamdi, a moderate who led the military take-over last June, reportedly still has the backing of key army units and is expected to remain the country's strong man by virtue of his role as armed forces commander in chief. By choosing Abd al-Ghani to try to form a new cabinet, Hamdi was evidently trying to avoid giving the post to a potential rival, while maintaining a middle-of-the-road posture in North Yemeni politics.

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Rightist forces, such as tribal sheikhs and religious leaders, wanted al-Amri or some other conservative to head the cabinet. Hamdi resisted their efforts in part to avoid the charge that he is bringing North Yemen openly into the Saudi orbit. Abd al-Ghani will probably be acceptable to leftists in the government and armed forces who have been unhappy with the removal of al-Ayni. Three North Yemeni cabinet members with Baathist views resigned last weekend to protest al-Ayni's dismissal.



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## ZAIRE: NATIONALIZATION MEASURES

President Mobutu seems determined to bring sweeping economic and social changes to Zaire in 1975. He began the year by decreeing a series of measures designed to tighten government control over the economy and to make a number of Zaire's social institutions more responsive to national needs. Under the measures, the government will take over all large production, distribution, construction, and transportation firms. Mobutu will appoint special "delegates" to manage the facilities, which apparently will be grouped under "national commissions" that will oversee various sectors of the economy.

The take-overs are the second stage of a program introduced early in 1974 when the government nationalized all large non-industrial enterprises as well as petroleum storage and distribution facilities. Unlike action last year, which applied only to foreign-owned enterprises, the new moves include Zairian-owned businesses. In addition, government and party officials must turn over to the state all of their properties in Zaire and abroad, as well as all foreign bank accounts. Moreover, they will no longer be assigned to manage previously nationalized businesses although they will be allowed to engage in agriculture, the weakest sector of the economy.

To avoid discouraging badly needed foreign investment, all foreign firms established under the Investment Code of 1969—which grants generous incentives to large-scale investors—are exempt from take-over. The majority of US firms in Zaire have been set up under the code. Foreign-owned petroleum and copper exploration and production facilities are also exempt. Although Zaire nationalized the copper industry in 1967, it has granted a number of concessions to small private firms on a 50-percent equity basis.

Mobutu apparently believes the new measures are necessary to reduce Zaire's serious inflation and unemployment as well as to curb corruption and conflict of interest among government officials. Some measures, such as repatriation of foreign assets and restrictions on luxury imports and items that compete with Zairian goods, seem designed to improve the government's shaky for-



President Mobutu

eign exchange position, partly the result of inflation and low copper prices.

In other moves, Mobutu ordered the army to revise its priorities. Agriculture, political education, and military training are to be emphasized—in that order. The educational system is also to be revamped. Although details are still unresolved, immediate moves include one year of compulsory civic service for all secondary school graduates, and the introduction of "courses in civics and politics" in place of religious training.

It will probably be some time before the government can implement the new measures, many of which are vague or ambiguous at best. In the meantime, the commercial sector will probably suffer some disruptions, although so far Mobutu has apparently met little resistance to his measures. Businessmen have adopted a wait-and-see attitude, and officials are making strong public gestures of support while probably hoping in private that they will not have to enforce the new measures. The military appears resigned to its new role, but does not have the equipment or logistic system to operate effectively. Students are unlikely to jeopardize their college educations by rebelling against civic service.

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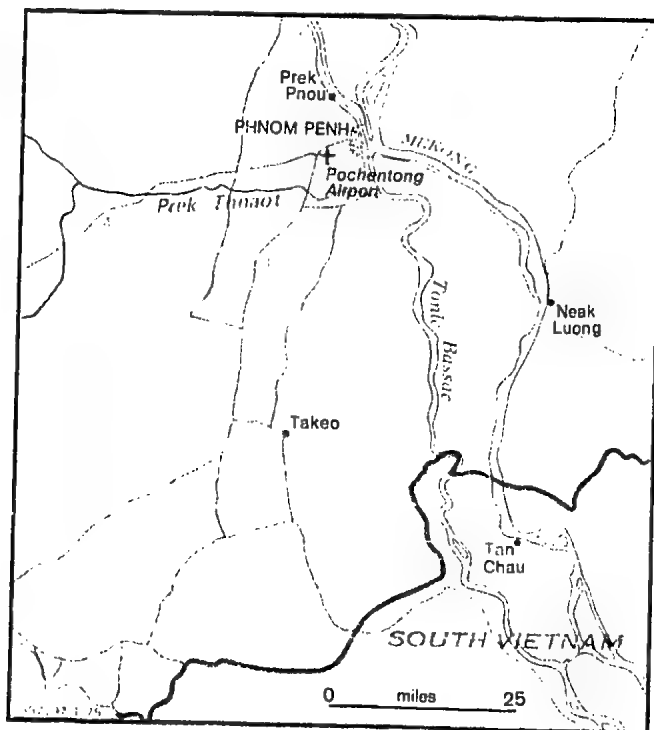
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## CAMBODIA

### A Crack in the Blockade

At midweek, a small and heavily escorted ammunition convoy dashed up the Mekong River from the South Vietnamese border to Phnom Penh. The convoy encountered intense Communist shelling en route and was stopped several times, once when an insurgent round knocked out the engine on one tug. Halfway upriver, civilian crews on some vessels refused to continue, and navy personnel had to take over. Effective support from the air force and navy, government amphibious landings at several points along the Mekong, and the destruction of a barricade at a vital river narrows kept the 60-mile run upstream from being more hazardous than it was.

The progress of the test convoy was closely followed by other jittery crews and river pilots aboard civilian cargo vessels anchored at the Vietnamese riverport of Tan Chau. Shipowners and crews have become concerned over the frequent delays in sailings and scare stories about Communist strength along the lower Mekong. They have the final word on whether to risk the trip upriver.



### Hard Times in Phnom Penh

The arrival of the convoy will boost morale in Phnom Penh. Rice and fuel are now being rationed to civilians in the capital and the city continues to be hit by sporadic rocket attacks. Over 150 civilians have died since the attacks began on New Year's Day; the heavy casualties are partly the result of an influx of refugees from outlying areas into the city proper. Communist gunners this week also got the range of Pochentong airport, just west of the capital, destroying one aircraft and damaging another. The airport remains open, however, and increased deliveries of military equipment continue.

Ground action along the capital's northwestern defenses picked up late in the week following a period of relative quiet. The Cambodian army's battered 7th Division is bearing the brunt of the fresh attacks. Insurgent mortar crews have again moved within range of the military fuel depot on Route 5, and the navy headquarters near the city has been the target of some shellings. Seesaw battles also continue for several riverside and island positions north and east of Phnom Penh.

Since widespread fighting began on January 1, total casualties from both sides have averaged about 1,000 a day—the heaviest of the war.

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## VIETNAM: THE WINTER CAMPAIGN

The Communists' military campaign is now in its seventh week. So far, the fighting has been moderately heavy in the southern half of the country, and there are signs that it will soon spread to other areas. Communist forces have already made some territorial gains, and they will probably take additional ground before government troops can stop them.

Combat has increased in the delta, but has tapered off north of Saigon, suggesting some Communist units are taking a brief respite to consolidate their gains and to refit. There are clear signs that the North Vietnamese will soon resume their attacks north of the capital, and a Communist buildup in the central part of the country points to new fighting in that area.

North Vietnamese troops have captured all of Phuoc Long Province, a district capital in Binh Tay Province, and an important mountain top in Tay Ninh Province. Communist inroads in the delta include seizing a district capital in Chuong Thien Province, overrunning numerous outposts, and expanding their infiltration corridors and base areas.

### Uneven Match-ups

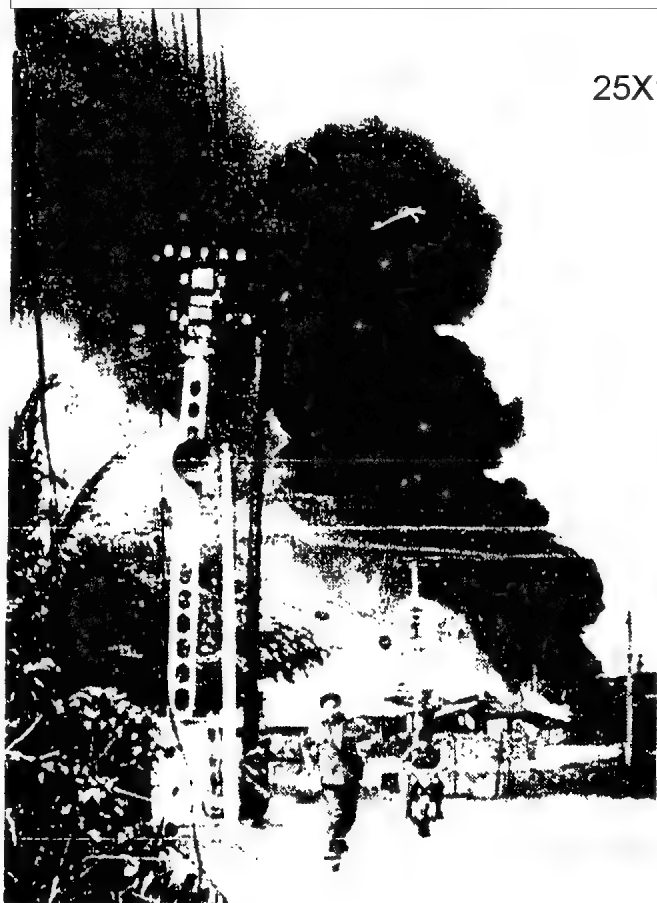
Most Communist gains have been in remote, sparsely populated areas defended by South Vietnamese local forces. Except for a few instances in the delta, these troops have generally fought well against Communist main force units. The match-up in forces has favored the Communists, however, and the outcome of most battles was seldom in doubt. In the struggle for the provincial capital of Phuoc Long, for example, the Communists committed parts of two divisions, together with armor, artillery, and air defense units to overpower a South Vietnamese force of less than a regiment. Even so, it took the North Vietnamese nearly a week to capture the capital.

Both sides have suffered fairly heavy casualties in the recent fighting, but the South Vietnam-

ese appear to have been hurt less than the Communists. Most government losses were suffered by the regional forces, while the Communists' main forces have borne the brunt of enemy combat losses. The Communists should, however, be able to replace most of their losses fairly quickly. They had few reserves on hand at the start of the current campaign, but additional troops are now arriving from North Vietnam.

### Troop Infiltration

Hanoi is maintaining a moderately heavy flow of troops through the infiltration pipeline, and much of the manpower is going to southern South Vietnam where fighting has been heavy.



Fleeing a rocket

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[redacted]

government positions are defended by small, isolated garrisons that would be difficult to resupply and reinforce if they came under siege. The Communists, on the other hand, have large combat forces that they can concentrate against these positions. Moreover, the North Vietnamese have expanded their network of roads, have built large base areas, and have moved in large quantities of war materiel. 25X1

[redacted] the government does not believe that it can successfully defend either Kontum or An Loc, the capitals of Kontum and Binh Long provinces respectively, if the Communists mount heavy attacks on the towns. In addition, the South Vietnamese will probably have to give up territory in western Pleiku, Darlac, and Quang Duc provinces. Some additional outposts and perhaps a few district towns will fall to the Communists north of Saigon and in the delta, but the government has said that it will fight hard to hold on to the provincial capitals throughout the southern half of the country. 25X1

#### Government Initiatives

The South Vietnamese have begun widespread military operations to disrupt the Communists and blunt their offensive. Several of the government's efforts have already achieved some success. In the northern delta, for example, the South Vietnamese have sent a division into action against the infiltrating Communist 5th Division, blocking it from moving deeper into the region. In addition, government troops have carried out operations against Communist units, supply routes, and staging bases throughout the delta, and these have caused heavy enemy losses.

The government also has taken the initiative closer to Saigon. South Vietnamese forces have pushed the Communists out of several villages near Tay Ninh City, and they have used artillery and air strikes to bombard enemy positions on Ba Den Mountain. In Binh Tuy Province, government troops have broken the siege of one district town, and they have begun a drive to retake another lost to the enemy early last month. [redacted] 25X1

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#### Next Round of Fighting

In the delta, the second phase of the North Vietnamese winter campaign has already begun. The heaviest new fighting has occurred in the southern provinces of Chuong Thien, Kien Giang, and Bac Lieu. There are reliable indications that the North Vietnamese will soon carry out new assaults north of Saigon. One report claims that the Communist 9th Division, which has seen no action since last fall, will move into Tay Ninh Province from Binh Duong, but there is no hard evidence to confirm such a move. In any case, the 9th is expected to take part in any new fighting in this sector.

In the central highlands, the Communists have begun shifting combat units, which points to a step-up in combat. The North Vietnamese 968th Division is apparently moving into the highlands from southern Laos, and some of its troops have already arrived in western Pleiku Province. In addition, existing combat units in the province show signs of stirring. Several units from the Communist 320th Division have recently moved closer to South Vietnamese positions southwest of the provincial capital and have started to probe government defenses.

#### Government Vulnerabilities

The South Vietnamese are most vulnerable along the western frontiers of the country. The

## NEW CHINESE ROADS

### To the Burma Border...

[redacted] seven new roads under construction in five areas on the Chinese side of the border. The roads will provide better access to Chinese border outposts and could facilitate logistic support to the military forces of the Burmese Communist Party. All of the roads have been started since November 1973, and none is yet finished. The longest extends over 35 miles, running from the town of Meng-lien, a major Chinese headquarters that supports the insurgency in northern Burma, to within two miles of the Burmese border.

The Chinese started scaling down their support to the insurgency in early 1974, although they continued work on the roads. They also continued to train personnel from the Northeast Command, the Burmese Communists' military arm, and some Chinese soldiers still fight with the command.



Although the Burmese army had some success in its military operations against the insurgents in 1974, the Northeast Command retains its principal bases and force structure and most of its fighting strength. The command recently expanded from three to four brigades and has been adding new recruits.

### ...And in Laos

Recent aerial photography shows a new 14-mile-long addition to the Chinese road system in Laos. The segment extends due east of the Ou River, the first such construction by the Chinese on that side of the river. At least four of the six

Chinese engineer regiments in Laos are working on this two-lane, all-weather portion of the network. 25X1

Late last year, the Chinese signed an agreement to provide the Laotians with \$25 million in aid. The bulk of the money was earmarked for construction of a road from Nam Bac to the royal capital of Luang Prabang, but the agreement also provided for other unspecified construction projects. Thus far, there is no evidence, photographic or otherwise, of new construction along the Nam Bac to Luang Prabang route. It is unlikely that any actual construction work on this link has been accomplished because most of the Chinese engineers are working on the new eastward segment. 25X1 25X1



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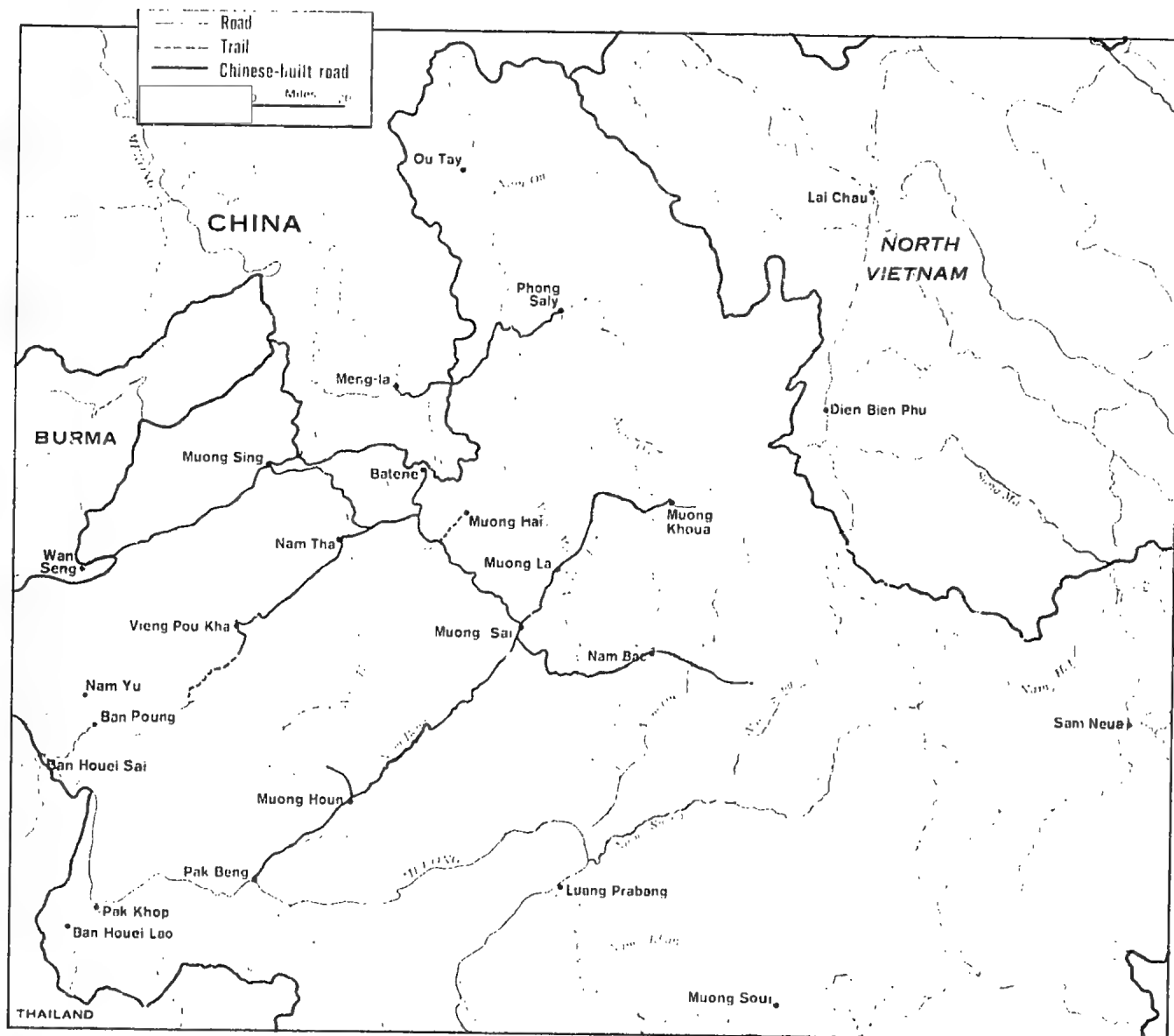
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Currently, there are about 23,000 Chinese engineers, infantry, and support troops in northern Laos, where the Chinese have maintained a considerable military presence during the past seven years. Their efforts have been almost totally concentrated on building and protecting the road

system—now in excess of 300 miles. The Pathet Lao have administered and maintained control of areas adjacent to the roads.

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## THAILAND: ELECTION TIME

Thailand will go to the polls on January 26 to elect a parliament and, indirectly, a government. The election concludes a frequently tumultuous 15-month-long transition from military to parliamentary rule. Even though the Thai people will have a direct hand for the first time in determining the make-up of their central government, voter interest is not high. This is due in part to a lack of campaign issues. Political attacks against the government and its political party, which have often enlivened previous campaigns, are missing this time. The caretaker government of Sanya Thammasak has no interest in perpetuating itself and is eager to step down following the election. In addition, many Thai, especially in rural areas, are skeptical that representative government can work in Thailand's hierarchical society and believe that the army generals will be back in power within a year.

Although the voting will take place over the weekend, it will probably be a week or so before the results are known and a government can be formed. Complicating the process—aside from the fact that the Thai have no experience in the workings of parliamentary government—is the likelihood that no single party will gain an absolute majority.

Some 2,000 candidates representing 42 political parties are vying for 269 seats in the National Assembly. According to a US embassy estimate, six parties will garner the bulk of these seats, with the Social Justice Party, backed by army chief Krit Siwara, leading the pack. Krit is also supporting two other parties that are expected to do well in the voting. Should these forecasts prove accurate, Krit will be in a strong position to influence the selection of the next prime minister. Moreover, politicians will find it difficult to form a coalition government without at least Krit's tacit acceptance.



Campaigning in Bangkok

Regardless of who becomes prime minister, there is little chance that the new government will radically alter Thai domestic or foreign policies. Political party affiliations notwithstanding, the majority of the candidates running for office are wealthy businessmen, lawyers, or former government officials. Thus, the next government seems destined to be at least as conservative as its predecessor, if not more so.

How long Thailand's experiment with civilian rule will last depends largely on how well the new government can work with—and gain the confidence of—the military, who have held the reins of political power in Thailand for much of the past 40 years. The army seems willing to give the civilians a chance to prove themselves. The army, through Krit's anticipated political influence in the new parliament, should be able to protect its considerable interests. At least for the short term, General Krit probably holds the key to Thailand's prospects for political stability and civilian rule.

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Domestic dissent last year

### South Korea PAK CALLS FOR REFERENDUM

President Pak Chong-hui's announcement this week of a national referendum on his leadership under the authoritarian 1972 South Korean constitution has drawn sharp protests from opposition groups. Pak hopes to demonstrate that he has national approval for his tough line toward domestic dissent. He contends that softness would be especially dangerous at this time, in light of the nation's new economic difficulties and a continuing threat from the North.

Pak set no date for the referendum, but it will probably be held in mid-February. Balloting will reportedly be secret, but under the law no public debate on the issues is permitted. Pak's opponents are concerned over the difficulty of presenting their case to the public and the possibility that the referendum presages additional suppressive measures. Some activists seem ready, nonetheless, to mount an anti-referendum campaign, and there is also talk of boycotting the balloting.

Pak apparently sees the referendum as a means of taking the political initiative away from his critics, who have been preparing for another round of anti-government actions this spring. Pak hopes that a big win at the ballot box would tag his opponents as nothing more than an anti-social minority. He may indeed also intend to use the results as a basis for tough new control measures, possibly including new legal restraints on opposition political parties, if major protests develop in the coming months.

Government agencies can probably guarantee a favorable vote for Pak, but the benefits of any referendum are questionable. The results will not quiet his critics and, particularly if government security forces become heavy-handed in attempts to ensure an overwhelming victory, political tensions may only be aggravated.

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## TANKER FLEETS OF OIL PRODUCERS

The oil- and gas-producing countries, led by the Arab states, are utilizing some of their surplus oil revenues to increase their national oil-tanker fleets. Their combined tanker fleets had reached some 2 million deadweight tons by the end of 1974, still a small share of the world's total tanker fleet of over 200 million tons. By 1980, the fleets of producing countries are projected to reach about 27 million tons, or 7 percent of the total world tanker fleet, aggravating the world tanker glut. Moreover, the buildup of producer tanker capacity further presages the decline in the role of the major oil companies.

Each of the major oil- and gas-producing nations has adopted wide-ranging programs to enlarge its fleet. Kuwait has ordered four very large crude carriers totaling 1.3 million tons at a cost of \$250 million. In addition, the Kuwaitis have allocated \$275 million to organize a company to transport liquefied gas and \$260 million to develop an oil-products tanker fleet of 13 small-to-medium tankers.

Iraq has ordered 1.3 million tons in the 125,000 to 150,000 ton range and reportedly is in the market for additional tonnage. Libya has ordered 850,000 tons for delivery by 1976, while Iran has ordered four very large crude carriers totaling 900,000 tons. By the 1980s, Venezuela—with foreign participation—plans to develop a modern 2-million-ton fleet as well as support facilities to haul up to half of its estimated exports of 2 million barrels a day. Ecuador is planning a national fleet capable of transporting about 100,000 barrels a day by the end of the decade. Indonesia and Nigeria have announced tentative programs to develop oil-tanker fleets, and Saudi Arabia also has some formative plans.

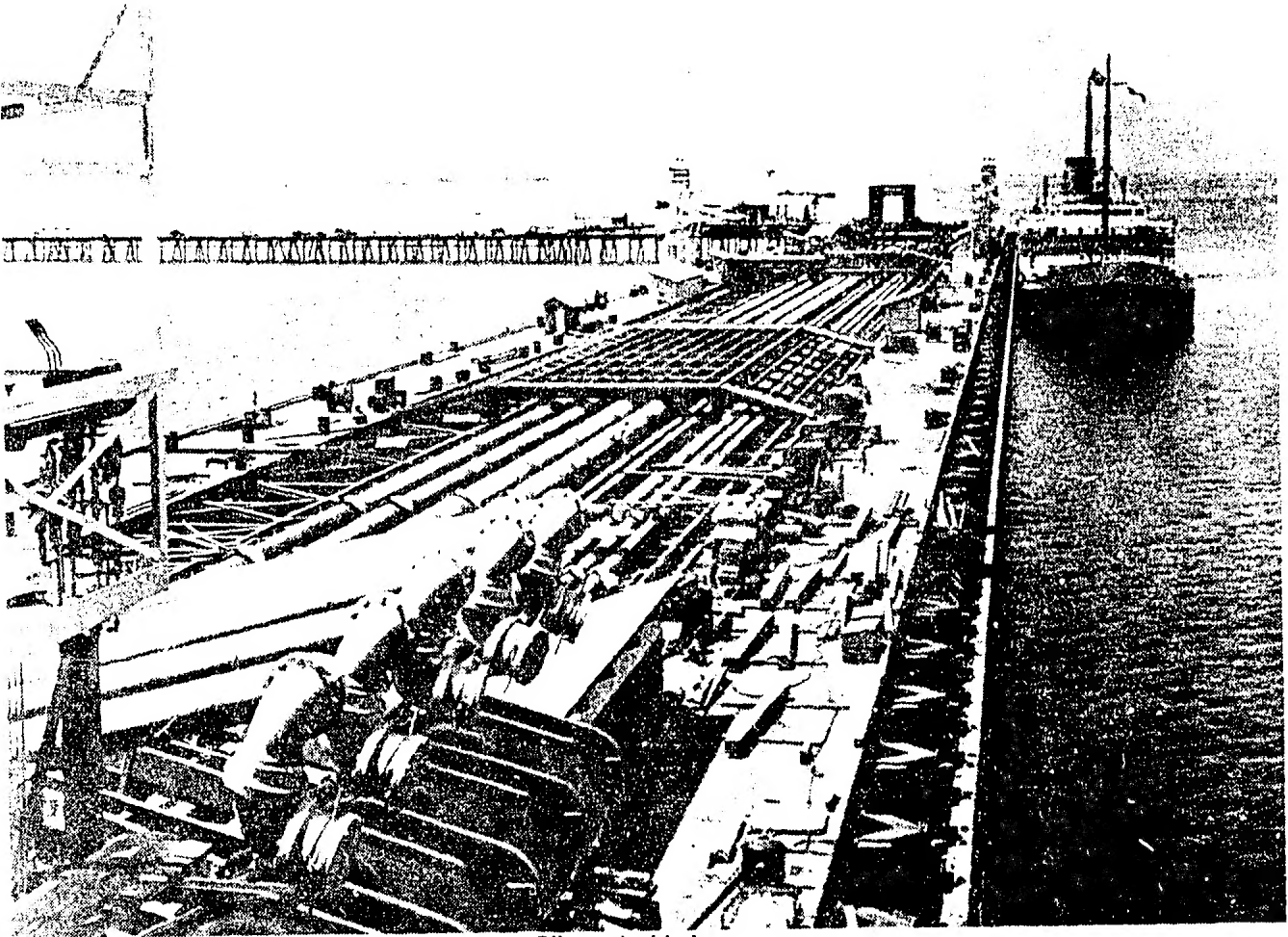
In addition to the development of national fleets, the producing countries—especially in the Persian Gulf—are entering into joint ventures with other producers and with Western firms to own and operate oil tankers. The establishment of joint ventures is more important for liquefied gas, petrochemicals, and refined products, for which more than 150 joint projects are currently under consideration by Middle East producers and Western companies.

The Saudis are particularly active in forming new private shipping companies with foreign partners. One—a consortium of Saudi, Hong Kong, and British companies—plans to purchase two 200,000-ton tankers as well as tankers to move liquefied natural gas to the US, Japan, Argentina, and Brazil. In addition, Saudi Arabia and Japan have reached an agreement to establish two shipping companies in Saudi Arabia, one of which will operate oil tankers between the two countries. Two large tankers have been ordered from Mitsui shipbuilding for this fleet. Other deals have been concluded with Spanish and US interests, and ventures involving petrochemical complexes and associated tankers are being considered.

The organization of Arab Petroleum Exporting Countries organized the Arab Maritime Petroleum Transport Company in 1973 to expand their tanker assets. The original capital subscription of



Kuwaiti oil tanker



Oil terminal in Iran

\$100 million has been increased to \$500 million, and the company plans to acquire a 10-million-ton fleet costing over \$2 billion by 1980. It has ordered five very large crude carriers in the 300,000 to 400,000 ton range at a cost of over \$300 million and is requesting bids on six new tankers in the 50,000 to 100,000 ton range. Because most Arab oil producers are planning to expand their refining capability, the company also is considering a shift to smaller specialized product tankers.

A shipbuilding and repair company has been organized to complement the transport organization. Two \$200-million facilities, able to handle the largest tankers currently in operation, are planned in Bahrain and Malta. The parent com-

pany has appointed a retired British naval officer as manager of its fleet operations and is seeking crews to man its new tankers—the first of which should be operational this year. Most countries presently rely on foreign nationals for crews and management expertise, but an inter-Arab merchant marine academy is to be established in Egypt to train desperately needed manpower.

Some producing countries have enacted flag preference legislation designed to assure full utilization of their fleets. In some cases, this legislation is tied directly to the availability of crude oil for export. Thus, for a consumer to obtain its required oil, it must first agree to move a certain percentage on ships belonging to the producing country.

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## TRADE TALKS MOVE FORWARD

Multilateral trade discussions resume in Geneva today, in the wake of the enactment of the US Trade Act of 1974. In spite of the precipitous rise in oil prices and emergence of widespread "stagflation" since the Tokyo discussions of 1973, many of the basic positions of the participants remain unchanged. Certain countries will doubtless voice concern about liberalizing trade in the midst of recession, and differences over the use of export controls will also emerge.

Rising concern is evident within the EC, particularly in France and Italy, that new trade concessions will increase domestic unemployment. In this connection, the European and Japanese press characterize the US Trade Act as a "double-edged sword" with protectionist provisions that could be invoked if the economic decline continues.

Assured access to goods in short supply has become a major issue since the Tokyo conference. Japan and the EC favor substantial limitations on the use of export controls. Canada and Australia regard control over raw material supplies as their main bargaining chip and will probably use their leverage in this area to obtain concessions in others. The less-developed countries prize their new-found market power and will try to maximize their benefits without conceding any freedom to restrict supplies.

The EC has two basic aims: preservation of community institutions, and limiting new trade barriers. The EC will push for "harmonization" of tariffs on industrial goods (reducing high tariffs by a greater percentage than low tariffs) and for international agreements covering major agricultural commodities. While it recognizes that it may have to make concessions on some commodities, the EC intends to preserve the basic principles of the Common Agricultural Policy.

The community position represents a compromise between the limited objectives of the

French and the more liberal aims of the British and Germans. Paris views the EC as an integrated, independent grouping that should be largely free of external influence. It regards both the Common External Tariff and the Common Agricultural Policy as linchpins of European unity and will resist any changes that would weaken these. As the French see it, the harmonization principle could involve raising as well as lowering tariffs.

Bonn believes that tariffs should be cut appreciably and that harmonization is not an end in itself. West Germany is more willing than France to negotiate on agriculture because it is disenchanted with various aspects of the Agricultural Policy. While the Germans support the idea of world commodity agreements, they oppose the inclusion of food aid and internationally supervised storage facilities in such arrangements. London shares Bonn's positions on tariffs and agriculture. Though favorably disposed toward the talks, the British feel that current economic uncertainties could stifle progress at Geneva.

Less is known about the Japanese and Canadian negotiating positions since they, unlike the US and the EC, do not have to develop a negotiating mandate. Japan favors uniform percentage reductions in tariffs on all industrial products and supports the concept of agricultural commodity agreements. The Canadians want to negotiate individual tariff reductions rather than apply an overall formula. While Ottawa is closer to the US than to the EC position on agriculture, preferring freer market access for agricultural products, it will probably not vigorously oppose the community proposals.

The less-developed countries are expected to insist on preferential application of any new trade arrangements. They are concerned about market access for their products and the effects of tariff reductions on advantages conferred by trade preferences. They are likely to push hard for improvements in the generalized system of preferences.

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## CENTRAL AMERICA: LEADERS MEET

The five Central American republics, caught in a cross-fire triggered by Venezuela's call for Latin solidarity against the US Trade Reform Act, are seeking agreement among themselves on a policy that will alienate neither the US nor Venezuela, the area's new-found benefactor. Also, the Central American leaders have reaffirmed their commitment to resolve the conflicts that have stalled regional unity.

On January 18, Guatemalan President Laugerud was host to his counterparts from El Salvador, Honduras, and Nicaragua. Costa Rican President Daniel Oduber, although unable to accept Laugerud's last minute invitation, is expected to participate in plans for increased regional cooperation and for solidarity in protecting Central American interests.

Following the gathering last weekend, the four chiefs of state declared that the US Trade Reform Act would generally benefit trade relations, but that provisions that discriminate against some Latin American countries should be resolved through hemispheric dialogue rather than confrontation. The Central American leaders turned down the request from Ecuador and Venezuela to boycott the coming OAS meeting in Buenos Aires, but phrased their refusal in such a



President Laugerud

way as to appear sympathetic—especially with Caracas. Just last month, Venezuelan President Perez promised substantial aid to help the region, which is almost entirely dependent on imported oil.

The chiefs of state also pledged to cooperate in the settlement of the Honduras - El Salvador border dispute and in the reorganization of the Central American Common Market. Despite a number of organizational meetings last year, no revitalization of the stagnant regional body is yet in sight, and new disputes continue to surface. The latest problems arose from Nicaragua's decision to impose new import and sales taxes on foreign goods and from selective stimuli for domestic industry decreed by El Salvador. Costa Rica reacted immediately with a bill authorizing "compensatory measures" against members that infringe on its national interests. El Salvador has also decided to limit fertilizer exports to Guatemala, and Guatemala has retaliated by restricting timber supplies to its neighbor.

Through the gradual relaxation of tariffs among member nations, and the adoption of uniform tariffs for imports from other nations, the Common Market did realize impressive successes through the late 1960s. But the common currency, uniform fiscal policy, and regional bank are as far from realization now as when they were projected over a decade ago. Disparate levels of development and growing nationalism have been major obstacles to the large-scale "rational" planning originally envisioned.

The most significant obstacle to regional integration efforts, however, is the nearly five-year-old impasse between El Salvador and Honduras that erupted in the 1969 "Soccer War." The two countries have suspended diplomatic relations as well as bilateral trade, and continue to interfere with commerce in the rest of the area. When Honduras formally withdrew from the Common Market in 1972, drastic changes in the flow of goods drove Costa Rica's trade deficit to \$98 million and prompted it to initiate separate exchange rates for essential products and luxury goods.

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## BRAZIL: THE CENSORSHIP ISSUE

The Geisel government appears to be struggling with the issue of censorship—specifically, whether it can abandon all outward aspects of the practice or be forced to reimpose strict, overt controls.

Earlier this month, the government removed the censors who have been present in the offices of the prestigious *O Estado de Sao Paulo*. The unilateral move was accompanied by a request—as yet apparently not honored—that *O Estado* agree to abide by telephone instructions as to what may not be printed. This practice, as well as self-censorship based on previous government directives, is in effect in other editorial offices. *O Estado*, however, has consistently rejected the concept of self-regulation, thus obliging the regime to maintain a direct presence at the paper's headquarters.

The government's recent initiative may be designed, in the final analysis, to create pressure that would finally oblige *O Estado* to adopt self-censorship. If, after the removal of the censors, *O Estado* still will not fall into line, its actions could well provide the excuse for the imposition of even stricter controls on it and, conceivably, on other papers. Moreover, by writing on some forbidden topic, such as torture or political dissidence, *O Estado* could, in effect, scoop the other papers and incur their wrath, and reinforce any latent government wish to return to full censorship.

Even if Geisel's effort is aimed at ending formal censorship, the government will not tolerate a return to no-holds-barred journalism. At best, there will continue to be limits—self-imposed or not—on what subjects the press can treat.

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